



AUDITOR - GENERAL
SOUTH AFRICA

The Accounting Officer
Sol Plaatje Local Municipality
Private Bag X 5030
Kimberley
8300

30 November 2013

Reference: 21354REG12/13

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Sol plaatje local municipality for the year ended 30 June 2013

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Corporate executive well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'O Fredericks', with a long, sweeping horizontal stroke extending to the right.

O Fredericks

Senior Manager: Northern Cape Business Unit

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**REPORT OF THE AUDITOR-GENERAL TO THE NORTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON SOL PLAATJE LOCAL MUNICIPALITY**
REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Sol Plaatje local municipality set out on pages **XX to XX**, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the statement of comparison of budget and actual amounts and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Revenue from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence to confirm revenue from service charges as a result of the estimated billing method used by the municipality. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to service charges stated at R838 429 273 (2012: R740 699 218) in the financial statements were necessary.

Receivables

7. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed for trade receivables in the financial statements and I could not confirm the balance by alternative means. Consequently I was unable to determine whether any further adjustments to receivables from exchange transactions stated at R209 465 132 (2012: R173 767 675) in the financial statements were necessary. Additionally, there is a consequential impact on the debtors' impairment, surplus and accumulated surplus for the period.

Qualified opinion

6. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Sol Plaatje local municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 43 to the financial statements, the municipality is the defendant in various claims and litigations to the amount of R137 768 844. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during the 2012/13 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Material losses

10. As disclosed in note 54 to the financial statements, material losses to the amount of R69 562 976 (2012: R38 562 256) were incurred as a result of bulk electricity and water losses.

Material impairments

11. As disclosed in note 36 to the financial statements, material impairment to the amount of R110 818 711 (2012: R103 687 992) were incurred as a result of the impairment of trade debtors.

Material underspending of the budget

12. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent the budget to the amount of R133 807 699.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of the matter.

Unaudited supplementary schedules

14. The supplementary information set out in appendix A - G does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages **XX to XX** of the annual report.

16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. The material findings are as follows:

Usefulness of information

18. Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 54% of the planned targets not achieved were not reflected in the annual performance report. This was due to the inadequate review of reported performance information by senior management.

19. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 58% of the reported indicators are not consistent with the indicators as per the approved integrated development plan. This was due to the lack of proper planning by the municipality.

Reliability of information

Development Priority 2 - Basic and sustainable Service delivery and Infrastructure

20. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Significant targets with respect to basic and sustainable service delivery and infrastructure are materially misstated when compared to the source information and/or evidence provided. This was due to the lack of monitoring and review of the source documentation.

Development Priority 5 – Good governance and public participation

21. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Significant targets with respect to good governance and public participation are materially misstated when compared to the source information and/or evidence provided. . This was due to the lack of monitoring and review of the source documentation.

Additional matter

22. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

23. Of the total number of 60 targets planned for the year, 32 of targets were not achieved during the year under review. This represents 54% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

24. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Financial statements, performance and annual reports

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act.

Procurement and contract management

26. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Supply Chain Management regulation 13(c).
27. Invitations for competitive bidding were not advertised for a required minimum period as required by Supply Chain Management regulation 22(1) & 22(2).

Human resource management and compensation

28. An approved updated staff establishment was not in place, as required by section 66(1)(a) of the Municipal Systems Act.
29. The municipality did not fully implement appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of Municipal Systems Act sec 67(d).

Expenditure management

- 30. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.
- 31. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the Municipal Finance Management Act

Revenue management

- 32. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act.

Internal control

- 33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- 34. The accounting officer did not exercise adequate oversight responsibility over financial and performance reporting, compliance with laws and regulations as well as internal control. The action plans compiled to address the previous year's audit findings were not monitored and reviewed to determine if the reported progress on the plans related was supported by credible information. The use of exception reports recommended in the previous financial year was not developed and utilised on a monthly basis to ensure the completeness, existence and accuracy of transactions within the areas where high volumes of transactions were processed, such as revenue and receivables.

Financial and performance management

- 35. Adequate documentation supporting the reported performance information could not be provided for audit purposes. The evidence provided for audit purposes were not clearly linked to the specific performance information reported in the annual performance report, this is as a result of a lack of adequate communication and understanding of what supporting documentation is required for the performance information reported.
- 36. Reconciliations performed within the revenue unit were not effective as repeat findings relating to this component were identified. This is due to the action plan of the previous year not being fully implemented.
- 37. The financial statements were subject to material corrections resulting from the audit and prior year's audit findings were not substantially addressed in all instances, this is due to a lack of adequate review by the chief financial officer to ensure completeness and accuracy prior to submission for auditing, as well as the late implementation of the municipality's action plan to address prior year audit findings.
- 38. The municipality did not review and monitor compliance with applicable laws and regulations

Governance

- 39. The internal audit and the audit committee were effective as they functioned in accordance with their audit charter and performed all audits in accordance with their audit plan. Recommendations were not timeously implemented by management, contributing to material repeat findings in the audit report.

Auditor-General

Kimberley

30 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence